

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Kenneth R. Witt, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates PSC evaluated the Leslie County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY FISCAL COURT

June 30, 2005

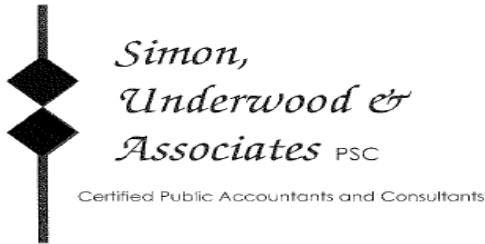
Simon, Underwood & Associates PSC was engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky for the purpose of forming an opinion and have disclaimed an opinion on the financial statements. In accordance with OMB Circular A-133, we have issued a disclaimer of opinion on the compliance requirements that are applicable to Leslie County's major federal program, Public Assistance Grants (CFDA #97.036), for the year ended June 30, 2005.

Based on our assessment of fraud risk, we determined the risk for fraud to be too high and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were not able to access certain fiscal court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. The significance of these issues, in the aggregate, prevents us from expressing an opinion and we do not express an opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky.

Report Comments:

2005-01	Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards
2005-02	The Fiscal Court Should Maintain Adequate Documentation For All Expenditures
2005-03	County Employees Used The County Judge Executive's Credit Card
2005-04	The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics
2005-05	The Fiscal Court Purchased Services From Related Parties
2005-06	The Fiscal Court Should Approve Employee Pay Rates
2005-07	The County Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities
2005-08	The County Does Not Maintain Proper Documentation For Capital Assets
2005-09	The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Control
2005-10	The Fiscal Court Should Maintain Adequate Documentation For All Personnel Files
2005-11	The Fiscal Court Should Pay Obligations Timely
2005-12	The Fiscal Court Should Annually Review The Administrative Code
2005-13	The Fiscal Court Should Monitor Ambulance Franchise Fee Collections
2005-14	The County Did Not Maintain Documentation Of FEMA Grant Expenditures

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Kenneth R. Witt, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We were engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2005. The financial statements are the responsibility of the Leslie County Fiscal Court.

Based on our assessment of fraud risk, we determined the risk of fraud to be too high, and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal emergency management agency grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were unable to access certain Fiscal Court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. The significance of these issues, in the aggregate, prevents us from placing any reliance on the financial activities contained in the financial statements of the Fiscal Court.

Because we were unable to place reliance on the accuracy, validity, and completeness of the county's financial statements and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The county has not presented the notes to the financial statements that the Governmental Accounting Standards Board (GASB) has determined to be a required part of the financial statements. Also, the county has not presented the management's discussion & analysis that GASB has determined is necessary to supplement, although not required to be part of the financial statements.

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leslie County Fiscal Court for the purpose of forming an opinion and have disclaimed an opinion on the financial statements. The budgetary comparison schedule, supplementary information required by GASB, is not a required part of the financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Because of the scope limitation discussed in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the budgetary comparison schedules, the combining fund financial statements and the schedule of expenditures of federal awards.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Kenneth R. Witt, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2006, on our consideration of Leslie County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- | | |
|---------|---|
| 2005-01 | Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards |
| 2005-02 | The Fiscal Court Should Maintain Adequate Documentation For All Expenditures |
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| 2005-14 | The County Did Not Maintain Documentation Of FEMA Grant Expenditures |

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
July 28, 2006

LESLIE COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Kenneth R. Witt	County Judge/Executive
Randall C. Combs	Commissioner
Kenneth F. Smith	Commissioner
Billy Ray Coots	Commissioner

Other Elected Officials:

Phillip Lewis	County Attorney
Eugene Roberts	Jailer
James Lewis	County Clerk
Carmoletta Morgan Pace	Circuit Court Clerk
John C. Morgan	Sheriff
James Wooten	Property Valuation Administrator
Greg Walker	Coroner

Appointed Personnel:

Mack Muncy	County Treasurer
Scott Smith	Finance Officer

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LESLIE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

LESLIE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government	
	Governmental	
	Activities	Totals
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,279,222	\$ 3,279,222
Total Current Assets	<u>3,279,222</u>	<u>3,279,222</u>
Noncurrent Assets:		
Capital Assets - Net of Accumulated Depreciation		
Land and Land Improvements	205,000	205,000
Construction in Progress	110,258	110,258
Buildings	482,115	482,115
Other Equipment	45,738	45,738
Vehicles and Equipment	160,543	160,543
Infrastructure Assets - Net of Depreciation	<u>826,831</u>	<u>826,831</u>
Total Noncurrent Assets	<u>1,830,485</u>	<u>1,830,485</u>
Total Assets	<u>5,109,707</u>	<u>5,109,707</u>
LIABILITIES		
Current Liabilities:		
Bonds Payable	280,000	280,000
Financing Obligations Payable	<u>388,481</u>	<u>388,481</u>
Total Current Liabilities	<u>668,481</u>	<u>668,481</u>
Noncurrent Liabilities:		
Bonds Payable	110,000	110,000
Financing Obligations Payable	<u>696</u>	<u>696</u>
Total Noncurrent Liabilities	<u>110,696</u>	<u>110,696</u>
Total Liabilities	<u>779,177</u>	<u>779,177</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,051,308	1,051,308
Restricted For:		
Debt Service	16	16
Capital Projects	138,396	138,396
Unrestricted	<u>3,140,810</u>	<u>3,140,810</u>
Total Net Assets	<u>\$ 4,330,530</u>	<u>\$ 4,330,530</u>

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LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,361,688	\$ 1,142	\$ 815,574	\$ 865,717
Protection to Persons and Property	392,604	13,618	461,102	
General Health and Sanitation	97,246	12,123		
Social Services	257,561		37,503	64,991
Recreation and Culture	270,582	2,487	100,800	
Roads	748,361		1,408,462	
Debt Service	12,745			
Capital Projects	1,159,595			
Total Primary Government	\$ 4,300,382	\$ 29,370	\$ 2,823,441	\$ 930,708

General Revenues:

Taxes:

Real Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	Totals
\$ 320,745	\$ 320,745
82,116	82,116
(85,123)	(85,123)
(155,067)	(155,067)
(167,295)	(167,295)
660,101	660,101
(12,745)	(12,745)
(1,159,595)	(1,159,595)
(516,863)	(516,863)
486,597	486,597
86,471	86,471
570,622	570,622
10,776	10,776
124,578	124,578
16,356	16,356
1,295,400	1,295,400
778,537	778,537
3,551,993	3,551,993
\$ 4,330,530	\$ 4,330,530

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LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	<u>Special Revenue Funds</u>			
	<u>General Fund</u>	<u>Road Fund</u>	<u>Local Government Economic Assistance Fund</u>	<u>Local Government Economic Development Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 705,474	\$ 798,325	\$ 455,424	\$ 849,531
Total Assets	<u>\$ 705,474</u>	<u>\$ 798,325</u>	<u>\$ 455,424</u>	<u>\$ 849,531</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 166,889	\$ 138,050	\$ 164,502	\$
Unreserved:				
General Fund	538,585			
Special Revenue Funds		660,275	290,922	849,531
Capital Projects Fund				
Debt Service Fund				
Total Fund Balances	<u>\$ 705,474</u>	<u>\$ 798,325</u>	<u>\$ 455,424</u>	<u>\$ 849,531</u>

LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 470,468</u>	<u>\$ 3,279,222</u>
<u>\$ 470,468</u>	<u>\$ 3,279,222</u>
\$ 38,357	\$ 507,798
	538,585
293,699	2,094,427
138,396	138,396
<u>16</u>	<u>16</u>
<u>\$ 470,468</u>	<u>\$ 3,279,222</u>

Reconciliation of the Balance Sheet -Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 3,279,222
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	2,944,475
Accumulated Depreciation	(1,113,990)
Liabilities:	
Due Within One Year - Bonds, Notes, and Lease Principal Payments	(668,481)
Due In More Than One Year - Bonds, Notes, and Lease Principal Payments	<u>(110,696)</u>
Net Assets Of Governmental Activities	<u>\$ 4,330,530</u>

LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Special Revenue Funds		
		General Fund	Road Fund	Local Government Economic Assistance Fund Local Government Economic Development Fund
REVENUES				
Taxes	\$ 928,382	\$ 54,306	\$	\$
In Lieu Tax Payments	60,051			
Excess Fees	10,776			
Intergovernmental	238,986	1,447,424	1,197,703	687,241
Charges for Services	14,369			
Miscellaneous	231,033	14,508		
Interest	2,752	5,474	1,089	5,238
Total Revenues	<u>1,486,349</u>	<u>1,521,712</u>	<u>1,198,792</u>	<u>692,479</u>
EXPENDITURES				
General Government	583,213		25,688	
Protection to Persons and Property	145,487	26,452	113,991	
General Health and Sanitation			95,246	
Social Services			172,872	
Recreation and Culture	26,518		230,164	
Roads		1,428,503	127,704	
Debt Service				
Capital Projects				1,049,337
Administration	443,815	123,903	160,622	
Total Expenditures	<u>1,199,033</u>	<u>1,578,858</u>	<u>926,287</u>	<u>1,049,337</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	<u>287,316</u>	<u>(57,146)</u>	<u>272,505</u>	<u>(356,858)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		85,000		
Transfers From Other Funds	162,571			
Transfers To Other Funds	(216,942)	(370,206)		
Total Other Financing Sources (Uses)	<u>(54,371)</u>	<u>(285,206)</u>		
Net Changes in Fund Balance	232,945	(342,352)	272,505	(356,858)
Fund Balances - Beginning	<u>472,529</u>	<u>1,140,677</u>	<u>182,919</u>	<u>1,206,389</u>
Fund Balances - Ending	<u>\$ 705,474</u>	<u>\$ 798,325</u>	<u>\$ 455,424</u>	<u>\$ 849,531</u>

LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 100,952	\$ 1,083,640
	60,051
	10,776
156,032	3,727,386
	14,369
	245,541
1,803	16,356
<u>258,787</u>	<u>5,158,119</u>
	608,901
260,704	546,634
2,000	97,246
89,609	262,481
	256,682
	1,556,207
282,745	282,745
110,258	1,159,595
6,640	734,980
<u>751,956</u>	<u>5,505,471</u>
<u>(493,169)</u>	<u>(347,352)</u>
255,000	340,000
477,148	639,719
<u>(52,571)</u>	<u>(639,719)</u>
<u>679,577</u>	<u>340,000</u>
186,408	(7,352)
<u>284,060</u>	<u>3,286,574</u>
<u>\$ 470,468</u>	<u>\$ 3,279,222</u>

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LESLIE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LESLIE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ (7,352)
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	993,076
Depreciation Expense	(61,951)
Net Book Value of Disposed Assets	(79,200)
The Issuance Of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources To Governmental Funds, While Financing Obligations Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets.	
Financing Obligation Proceeds	(340,000)
Bond Payments	270,000
Financing Obligation Payments	<u>3,964</u>
Change in Net Assets of Governmental Activities	<u>\$ 778,537</u>

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LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 763,800	\$ 763,800	\$ 928,382	\$ 164,582
In Lieu Tax Payments	71,430	71,430	60,051	(11,379)
Excess Fees	1,300	1,300	10,776	9,476
Intergovernmental Revenue	209,050	219,739	238,986	19,247
Charges for Services	16,100	16,100	14,369	(1,731)
Miscellaneous	20,900	133,001	231,033	98,032
Interest	1,200	1,200	2,752	1,552
Total Revenues	1,083,780	1,206,570	1,486,349	279,779
EXPENDITURES				
General Government	540,913	616,790	583,213	33,577
Protection to Persons and Property	3,714	150,250	145,487	4,763
Recreation and Culture	7,000	29,050	26,518	2,532
Administration	498,397	759,253	443,815	315,438
Total Expenditures	1,050,024	1,555,343	1,199,033	356,310
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	33,756	(348,773)	287,316	636,089
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	110,000	110,000	162,571	52,571
Transfers To Other Funds	(233,756)	(233,756)	(216,942)	16,814
Total Other Financing Sources (Uses)	(123,756)	(123,756)	(54,371)	69,385
Net Changes in Fund Balance	(90,000)	(472,529)	232,945	705,474
Fund Balance - Beginning	90,000	472,529	472,529	
Fund Balance - Ending	\$ 0	\$ 0	\$ 705,474	\$ 705,474

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu Tax Payments	\$ 53,000	\$ 53,000	\$ 54,306	\$ 1,306
Intergovernmental Revenue	931,974	1,432,463	1,447,424	14,961
Miscellaneous	3,000	3,000	14,508	11,508
Interest	3,500	3,500	5,474	1,974
Total Revenues	991,474	1,491,963	1,521,712	29,749
EXPENDITURES				
Protection to Persons and Property		26,452	26,452	
Roads	775,214	1,378,797	1,428,503	(49,706)
Administration	546,054	857,185	123,903	733,282
Total Expenditures	1,321,268	2,262,434	1,578,858	683,576
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(329,794)	(770,471)	(57,146)	713,325
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			85,000	85,000
Transfers To Other Funds	(370,206)	(370,206)	(370,206)	
Total Other Financing Sources (Uses)	(370,206)	(370,206)	(285,206)	85,000
Net Changes in Fund Balance	(700,000)	(1,140,677)	(342,352)	798,325
Fund Balance - Beginning	700,000	1,140,677	1,140,677	
Fund Balance - Ending	\$ 0	\$ 0	\$ 798,325	\$ 798,325

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 869,500	\$ 940,020	\$ 1,197,703	\$ 257,683
Miscellaneous	7,000	7,000		(7,000)
Interest	2,500	2,500	1,089	(1,411)
Total Revenues	879,000	949,520	1,198,792	249,272
EXPENDITURES				
General Government	31,689	31,689	25,688	6,001
Protection to Persons and Property	92,305	119,871	113,991	5,880
General Health and Sanitation	42,730	97,096	95,246	1,850
Social Services	168,970	189,410	172,872	16,538
Recreation and Culture	211,129	261,614	230,164	31,450
Roads	170,000	108,150	127,704	(19,554)
Administration	262,177	324,609	160,622	163,987
Total Expenditures	979,000	1,132,439	926,287	206,152
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(100,000)	(182,919)	272,505	455,424
Net Changes in Fund Balance	(100,000)	(182,919)	272,505	455,424
Fund Balance - Beginning	100,000	182,919	182,919	
Fund Balance - Ending	\$ 0	\$ 0	\$ 455,424	\$ 455,424

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 1,378,890	\$ 1,478,890	\$ 687,241	\$ (791,649)
Interest	2,500	2,500	5,238	2,738
Total Revenues	<u>1,381,390</u>	<u>1,481,390</u>	<u>692,479</u>	<u>(788,911)</u>
EXPENDITURES				
Capital Projects	<u>2,521,339</u>	<u>2,687,779</u>	<u>1,049,337</u>	<u>1,638,442</u>
Total Expenditures	<u>2,521,339</u>	<u>2,687,779</u>	<u>1,049,337</u>	<u>1,638,442</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,139,949)</u>	<u>(1,206,389)</u>	<u>(356,858)</u>	<u>849,531</u>
Net Changes in Fund Balance	(1,139,949)	(1,206,389)	(356,858)	849,531
Fund Balance - Beginning	<u>1,139,949</u>	<u>1,206,389</u>	<u>1,206,389</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 849,531</u>	<u>\$ 849,531</u>

**LESLIE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2005

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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LESLIE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2005

LESLIE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Special Revenue Funds			
	Jail Fund	Senior Citizens Fund	911 Fund	Community Development Block Grant Waterline Fund
ASSETS				
Cash and Cash Equivalents	\$ 7,570	\$ 45,848	\$ 278,612	\$ 26
Total Assets	<u>\$ 7,570</u>	<u>\$ 45,848</u>	<u>\$ 278,612</u>	<u>\$ 26</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 27,091	\$ 11,266	\$	\$
Unreserved:				
Special Revenue Funds	(19,521)	34,582	278,612	26
Capital Projects Fund				
Debt Service Fund				
Total Fund Balances	<u>\$ 7,570</u>	<u>\$ 45,848</u>	<u>\$ 278,612</u>	<u>\$ 26</u>

LESLIE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
June 30, 2005
(Continued)

Capital Projects Fund	Debt Service Fund	
Detention Facility Project Fund	Public Properties Corporation Fund	Total Non-Major Governmental Funds
<u>\$ 138,396</u>	<u>\$ 16</u>	<u>\$ 470,468</u>
<u><u>\$ 138,396</u></u>	<u><u>\$ 16</u></u>	<u><u>\$ 470,468</u></u>
		\$ 38,357
		293,699
138,396		138,396
<u>16</u>	<u>16</u>	<u>16</u>
<u><u>\$ 138,396</u></u>	<u><u>\$ 16</u></u>	<u><u>\$ 470,468</u></u>

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LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Special Revenue Funds			
	Jail Fund	Senior Citizens Fund	911 Fund	Community Development Block Grant Waterline Fund
REVENUES				
Taxes	\$	\$	\$ 100,952	\$
Intergovernmental	53,538	100,494		2,000
Interest	58		1,170	
Total Revenues	53,596	100,494	102,122	2,000
EXPENDITURES				
Protection to Persons and Property	250,438		10,266	
General Health and Sanitation				2,000
Social Services		89,609		
Capital Projects				
Debt Service				
Administration				
Total Expenditures	250,438	89,609	10,266	2,000
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(196,842)	10,885	91,856	
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers To Other Funds				
Transfers From Other Funds	195,000			
Total Other Financing Sources (Uses)	195,000			
Net Changes in Fund Balances	(1,842)	10,885	91,856	
Fund Balances - Beginning	9,412	34,963	186,756	26
Fund Balances - Ending	\$ 7,570	\$ 45,848	\$ 278,612	\$ 26

LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Capital Projects Fund	Debt Service Fund	
Detention Facility Project Fund	Public Properties Corporation Fund	Total Non-Major Governmental Funds
\$	\$	\$ 100,952
		156,032
254	321	1,803
254	321	258,787
		260,704
		2,000
		89,609
110,258		110,258
	282,745	282,745
6,600	40	6,640
116,858	282,785	751,956
(116,604)	(282,464)	(493,169)
255,000		255,000
	(52,571)	(52,571)
	282,148	477,148
255,000	229,577	679,577
138,396	(52,887)	186,408
	52,903	284,060
\$ 138,396	\$ 16	\$ 470,468

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LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

**LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a disclaimer of opinion on the governmental activities, each major fund, and aggregate remaining fund information of Leslie County, Kentucky.
2. Six (6) reportable conditions relating to the internal control over financial reporting are reported in the Independent Auditor's Report. All six are considered material weaknesses.
3. Seven (7) instances of noncompliance material to the financial statements of Leslie County were disclosed during the audit.
4. One (1) reportable condition and material weakness relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Leslie County expresses a disclaimer opinion on Public Assistance Grants CFDA #97.036.
6. There is one (1) audit finding relative to the major federal award program for Leslie County reported in Part C of this schedule.
7. The program tested as a major program was: Public Assistance Grants CFDA #97.036.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Leslie County was not determined to be a low-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

2005-01 - Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

During our review of the Schedule of Expenditures of Federal Awards (SEFA), we noted multiple significant errors. Specifically, we noted the following errors:

- Approximately \$318,369 of federal expenditures were not included on the schedule.
- The SEFA did not include all applicable federal grants awarded to the County government.
- The amounts listed on the SEFA were the total amounts received from the federal and state government and not just the federal portion of the expenditures.

In addition to these errors, the SEFA was not prepared in a timely manner for audit.

OMB Circular A-133, Subpart C-Auditees; Section _____.300 Auditee responsibilities states, "The auditee shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with Section _____.310.

The effect of these errors on the FY 05 SEFA, together with the control environment of this entity, has led the auditors to question whether all federal grant awards and expenditures were included on the SEFA.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-01 - Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards (Continued)

We recommend Fiscal Court follow OMB Circular A-133 for preparation of the government's SEFA and review for completeness. We further recommend procedures be put in place to ensure all federal grants awarded and expenditures paid are included.

County Judge/Executive Kenneth R. Witt's Response: Corrective procedures are being put in place to ensure that the DES departments record keeping methods meet all requirements.

2005-02 - The Fiscal Court Should Maintain Adequate Documentation For All Expenditures

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

During our test of expenditures, we were unable to determine if payments were accurately paid or posted as source documentation, such as authorizations, invoices and receipts were missing.

- For construction and grant fund projects, we were unable to determine if payments for individual projects exceeded the bid process threshold as stated in the administrative code. During our audit we noted the purchase of a dump truck for \$83,000 was not procured through the bid process.
- Of the \$15,568 in credit card purchases charged during the year, we could not determine the appropriateness of \$6,340 due to the lack of supporting documentation. The majority of the expenditures during the year were classified as travel. According to the administrative code, "All travel must be approved in advance" and "A request for reimbursement form must be completed within thirty days after returning from travel."
- For the 911 employees, the county pays a standard rate of \$75 for travel expenses. This standard rate is not approved through fiscal court or the administrative code which indicates that mileage reimbursement is \$.30 per mile. All other employees are reimbursed for travel based upon the administrative code. No other supporting documentation is remitted for this reimbursement.
- If an employee requests reimbursement for an expense other than mileage on the mileage request form, the county reimburses the employee for the total request.

We noted one invoice which contained an error in addition. The invoice should have totaled \$2,723 and was paid for the erroneous total of \$4,095. This invoice was also for the lease payment on the senior citizens program and was posted to the road maintenance account. The county should request a refund for the overpayment of \$1,372.

We recommend the county review for accuracy and maintain detailed supporting documentation to be attached to the approved purchase order as required by the administrative code prior to payment.

County Judge/Executive Kenneth R. Witt's Response: Projects, goods, and equipment are let for bid when applicable. The dump truck mentioned was \$82,461.62. The bid process was followed and documentation is on file. Travel expenses and reimbursement procedures will be addressed during the review of the administrative code.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-03 - County Employees Used The County Judge/Executive's Credit Card

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

The county allowed other employees the use of the County Judge/Executive's credit card. The county did not reconcile these credit card receipts to the credit card statements to ensure proper use of credit cards. There was no supporting documentation for \$6,340 of transactions. The two personnel that maintain the two issued credit cards are the Judge/Executive and the Deputy Judge/Executive (See also 2005-04).

Strong internal controls dictate that no other employee should use a credit card assigned to another county official for any reason. Employees who have credit cards issued to them are responsible for the purchases made on that card. A strong internal control system dictates that there be procedures in place that reconcile monthly credit card receipts submitted by employees to the credit card statements.

We recommend that the County Attorney or Attorney General review these transactions to determine whether restitution should be made. Also, the fiscal court should implement procedures to eliminate the use of credit cards by unauthorized users and to reconcile the credit card receipts to the credit card statements on a monthly basis.

County Judge/Executive Kenneth R. Witt's Response: The fiscal court will make every effort to correct problems in our record keeping. However, one credit card is maintained for office use. It is used to purchase supplies and equipment from online vendors where much cheaper prices can be found. It is also occasionally used for purchases from vendors that the fiscal court does not have a credit account with. This card is also sometimes used when there are conferences for the Judge and commissioners to attend to make room reservations and for their travel.

2005-04 - The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

The Code of Ethics adopted by the county states that "No county government officer or employee shall use or attempt to use his official position to secure unwarranted privileges or advantages for himself or others."

During the first fiscal court meeting on January 6, 2003 of the current County Judge/Executive's term in office he "states that the position of Solid Waste Coordinator will be posted" and appointed select people to the following positions:

- Road Forman
- Senior Citizens Director
- DES Director
- Finance Officer

In the meeting following, on January 10, 2003, the Solid Waste Coordinator is appointed and a Deputy County Judge/Executive was hired. Seven months later on August 27, 2003, the Fiscal Court "was informed that the Finance Officer had been appointed Deputy Judge/Executive by the Judge."

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-04 - The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics (Continued)

Numerous county vehicles and cell phones are maintained by the county and assigned to employees for business use. Of all county employees, only the appointed employees above have access to county equipment during non-business hours for personal use. During our audit we noted that these employees drive the county vehicles and use the cell phones for personal business. The county pays for the cell phone service and insurance coverage, annual taxes, repairs/maintenance, and fuel for the vehicles. The following is a list of the county equipment and the employee responsible for each as of June 30, 2005:

<u>Year</u>	<u>Make</u>	<u>Model</u>	<u>Cell Number</u>	<u>Title/Department</u>
2005	Chevrolet	Tahoe	(606) 275-1200	Judge/Executive
2000	Jeep	Cherokee	(606) 205-4804	Road Forman
1995	Jeep	Cherokee	(606) 335-0694	DES Director
2003	Dodge	Van	(606) 275-5520	Finance Officer
1995	Jeep	Cherokee		Solid Waste Coordinator

The Chevrolet Tahoe was purchased with grant funds from a Homeland Security grant which specifically states that the funds should be used to purchase a vehicle to “respond to incidents of terrorism involving the use of chemical, radiological, nuclear or explosive (CBRNE) weapons”. The grant purchases included enhancements to the vehicle for emergency lights and radio equipment to make it a command truck. The Judge/Executive had the emergency lighting system removed and gave it to the Sheriff. The Dodge Van is a vehicle purchased with grant funds by the Leslie, Knott, Letcher, Perry, Inc. a Community Action Council (LKLP) and leased by the Leslie County Senior Citizens program. The audit staff was also informed that before this administration the cell phone and the credit card expenditures (See also 2005-03) did not exist, nor did the practice of assigning vehicles to employees outside of business use with the exception of the Judge/Executive and the Road Forman.

The following issues warrant further consideration by the Fiscal Court and need to be addressed:

- Mileage logs are not maintained on these vehicles, phone logs are not maintained on these cell phones and therefore personal and business use cannot be established.
- Commuting use of the vehicles or personal calls made is not properly included on the employee’s W-2 statements for tax liability.
- The necessity of vehicles, cell phones and credit cards (See also 2005-03) for those other than those who are on call at all times is in question, especially in relation to personal use that has been permitted by the Fiscal Court.
- Use of grant funding for equipment or vehicles outside of grant programs.

Personal use of public resources is permitted if the entity has approved such use; however, personal use should be reported as compensation on employees’ wage and tax statements. For example, the Internal Revenue Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-04 - The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics (Continued)

We recommend the Fiscal Court improve controls for oversight and monitoring by implementing the following:

- The Fiscal Court should evaluate the necessity of county vehicles, cell phones, and credit cards for each employee. Vehicles, cell phones, and credit cards should be assigned based upon criteria established by the Fiscal Court and not for the convenience of the official/employee. In addition, the county should explore alternatives for county related travel/cell service, including the possibility of compensating employees through reimbursement when their personal vehicle is used for business travel/cell service instead of providing a county vehicle or cell phone for business use.
- Every employee and every department that has county vehicles and cell phones should maintain usage logs. The logs should include, at a minimum, the date, destination, purpose, mileage, or minutes for ALL use of vehicles and cell phones.
- Personal use for county vehicles and cell phones should be properly reported as compensation/employee benefit on W-2s in accordance with IRS regulations.
- The Fiscal Court should contact the Kentucky Department of Revenue and the Internal Revenue Service relating to wage reporting and tax liability in prior years and develop a policy related to vehicle, cell phone, and credit card assignment (See also 2005-03).

County Judge/Executive Kenneth R. Witt's Response: No vehicles are assigned to any employees for personal use. Several memos have been issued during this administration informing employees of this. A gas log is maintained and periodically reviewed at the county garage to track the amount of gas that is being used. Employees must sign, date, list the mileage on the vehicle, and put the license tag number of the vehicle receiving the gas on the log. Several cell phones are issued to employees. Phone plans are purchased with allotted minutes and if the employee exceeds these minutes the employee pays for the excess use.

Also, there has been a credit card for office use under the previous administration. There were also several pagers, at least two cell phones and vehicles issued to employees under the previous administration. The fiscal court will however, make every effort to implement better methods of logging use of cell phones and vehicles.

2005-05 - The Fiscal Court Purchased Services From Related Parties

A related party transaction is a business deal or arrangement between two parties who are joined by a special relationship prior to the deal. These transactions may involve a conflict between the public and personal interest of a county official/employee.

The Code of Ethics adopted by the county states that "no county government officer or employee shall use, or allow to be used, his public office or employment"...for the purpose of securing financial gain for himself, any member of his immediate family, or any business organization with which he is associated." During our audit we noted where services totaling \$1,200 had been provided by the brother of the Judge/Executive.

We recommend the Fiscal Court review all related party transactions to ensure the Code of Ethics has not be violated and amend the Administrative Code to assign an independent board to review ethics concerns.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-05 - The Fiscal Court Purchased Services From Related Parties (Continued)

County Judge/Executive Kenneth R. Witt's Response: The fiscal court will review and amend the administrative code if necessary. Judge Witt's brother is a professional musician in Nashville, TN. He was hired to perform at the Fourth of July celebration because it was a great opportunity for Leslie County to have professional entertainment at our Fourth of July celebration. Judge Witt's brother did receive \$300 of the \$1,200, as there were four people in the band.

2005-06 - The Fiscal Court Should Approve Employee Pay Rates

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

The Fiscal Court approves within the budget each year the salaries on a line-item basis in total. A detailed schedule of employees and pay rates was not presented or approved by the fiscal court. For the budget for the FYE 2005, the employee pay rates were communicated to the Treasurer by the Judge/Executive verbally. The Audit staff was informed that pay raises were given to all employees of the Judge's staff.

During the minutes of the fiscal court meeting of June 9, 2004, 1st reading of the 2004/2005 budget, the Treasurer pointed out "the severance tax fund was stretched to the limit, no margin for unanticipated expenses." Also he included that "payroll is one area that might need to be looked at." At the June 26, 2006 meeting which included the 2nd reading of the 2006/2007 budget, one commissioner questioned specifically "the amount budgeted for the finance officer and secretary and asked if this was an increase from last year." The budget was approved, however, the commissioner "stated that he disagreed with the pay raises."

We recommend the Fiscal Court review and approve a detailed schedule of all employee pay rates in correlation with the budget line-item approval process.

County Judge/Executive Kenneth R. Witt's Response: This will be addressed during review of the administrative code.

2005-07 - The County Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

During our testwork several inequities between the administrative policies and accounting practices were noted.

- The county has three constables. All three are paid \$420 per month. Two out of three are issued a 1099 Misc Form for the total county payments as independent contractors. The third constable remits receipts for reimbursement of gas and car repairs. In FYE 2005 this constable remitting receipts totaling \$799, however was not issued a 1099 Misc Form for the difference in the reimbursement amount of \$799 and the total payments made of \$5,040.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-07 - The County Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities
(Continued)

- The county has three commissioners. All three commissioners are offered the same pre-tax health insurance benefit as all other employees within the county according to the administrative code. The county's policy is to pay for the employee's coverage, \$265 per month in FYE 2005, or the employee may opt to waive the benefit. In 2005, one commissioner accepted the benefit at the coverage offered each employee, \$265 per month, through the normal payroll process. The other two commissioners were reimbursed for the premiums they paid on their own personal health insurance. These commissioners were paid by the county \$298 per month.

In regard to the constables, we recommend the Fiscal Court contact the Kentucky Department of Revenue and the Internal Revenue Service relating to wage reporting and tax liability in prior years and develop a policy related to reimbursement of expenses incurred by the constables.

In regard to the commissioners, we recommend that the County Attorney or Attorney General review these transactions to determine whether restitution should be made. Also, the fiscal court should implement procedures to establish uniform policies for all officials/employees.

County Judge/Executive Kenneth R. Witt's Response: The fiscal court will review and make changes as necessary to our accounting practices in regards to issuing 1099 forms.

2005-08 - The County Does Not Maintain Proper Documentation For Capital Assets

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

The County does not maintain original documentation for all capital assets. Several instances were noted in which copies had to be obtained for deeds, titles and invoices since the original documentation could not be located. Additionally, some deeds, titles, and invoices were not available at all.

The County cannot properly determine insurance needs or if surplus property is owned without proper documentation. The *Instructional Guide For County Budget Preparation and State Local Officer Policy Manual*, issued by the Governor's Office for Local Development (GOLD), outlines requirements for capital assets. The requirements specifically state: "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records."

The County does not maintain proper supporting documentation for capital assets and did not comply with capital asset requirements as established by GOLD.

We recommend the County maintain all capital asset documentation as required in GOLD's policy manual. Original documentation should be maintained in a central location with copies provided to the applicable departments as necessary for departmental recordkeeping.

County Judge/Executive Kenneth R. Witt's Response: The fiscal court will make every effort to comply with GOLD's policy requirements.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-09 - The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Control

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

In the second fiscal court meeting of the current Judge/Executive's term, on January 10, 2003, a deputy County Judge/Executive was hired with the explanation that the Judge/Executive "may have to leave for military duty at any time and the appointment needs to be made today." In this same meeting, was the designation of the Finance Officer "as agent to sign the necessary paperwork for FEMA applications, etc." Six months later on August 27, 2003, the Fiscal Court "was informed that the Finance Officer had been appointed Deputy Judge/Executive by the Judge."

During our audit, we noted at least seven different signatures of the County Judge/Executive's name. These were noted on checks written for all funds (dual signatures are required), resolutions, contract agreements, purchase orders, budget and budget amendments, FEMA paperwork, submissions to the Governor's Office for Local Development, tax rate increases, and more. We noted no designation of any one person by the Fiscal Court to act as agent other than the FEMA paperwork mentioned above.

Proper accounting procedures and internal control policies should be in place. The failure to adequately provide or properly monitor financial management activities increases the risk of materially misstated financial statements due to errors or omissions from fraud or improper reporting. Failure to provide proper oversight of internal controls leaves thousands of dollars at risk. Sound management and a good internal control structure are essential for the achievement of full oversight and accountability.

We recommend the Fiscal Court design and implement procedures for when the County Judge/Executive needs to be absent from his position. We recommend one of the procedures is to designate an agent with his/her authority and limitations explicitly detailed. The agent should then be instructed to sign the County Judge/Executive's name with his/her own signature as agent.

County Judge/Executive Kenneth R. Witt's Response: Judge Witt was placed on active duty from March 2003 until March 2004. All office staff has written permission to sign Judge Witt's name.

2005-10 - The Fiscal Court Should Maintain Adequate Documentation For All Personnel Files

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

During our test of payroll, we noted several documents missing from various personnel files. The personnel files varied in what documentation was missing. For example, one file was missing the W-4 and employment application, one file was missing the W-4 and all documentation for additional withholdings. All personnel files were missing K-4s.

We recommend the county review all personnel files and maintain up-to-date documentation on all employees.

County Judge/Executive Kenneth R. Witt's Response: Personnel Files are in the process of being updated. All employees have received a W-4 and K-4 and are to have them completed and returned by 8-25-06.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-11 - The Fiscal Court Should Pay Obligations Timely

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

During the course of our audit, we found that numerous invoices were submitted to the county for payment and not paid within thirty days as required by KRS 65.140. Pursuant to KRS 65.140 all bills for goods or services shall be paid within thirty days of receipt of vendor's invoice except when payment is delayed because purchaser has made written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. We also found numerous invoices encumbered in one fund and expensed, when paid, in another fund. As a result of this purchasing and payment activity the Jail Fund did not have sufficient revenues to cover obligations incurred. We have adjusted the treasurer's financial statement at June 30, 2005 for unpaid obligations.

We recommend the fiscal court comply with KRS 65.140 and ensure current payment of outstanding obligations/claims within 30 days. We further recommend the fiscal court review a list of outstanding obligations prepared for the quarterly report to ensure compliance.

County Judge/Executive Kenneth R. Witt's Response: Vendors do not get their invoices to the fiscal court accounts payables in time for approval; therefore invoices will be over 30 days. The Leslie County Fiscal Court will do everything possible to comply.

2005-12 - The Fiscal Court Should Annually Review The Administrative Code

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

We examined the fiscal court order book for the fiscal year and did not note whether an annual review of the county administrative code had been performed. An annual review by the fiscal court is required by KRS 68.005 during the month of June.

We recommend the fiscal court annually review the administrative code and enter the changes into the fiscal court order book.

County Judge/Executive Kenneth R. Witt's Response: The administrative code will be reviewed at the next fiscal court meeting which is scheduled for 8-30-06.

2005-13 - The Fiscal Court Should Monitor Ambulance Franchise Fee Collections

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

On July 20, 1995 the county entered into a lease agreement with a private company for the purpose of providing emergency ambulance service, this lease agreement was terminated June 30, 1998 and another company signed a new lease July 30, 1998. The terms of both leases stipulated that the private companies must pay the fiscal court \$500 per month for consideration of the lease equipment and property. Delinquent payments total \$24,000 for the prior provider and \$18,000 for the second provider

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-13 - The Fiscal Court Should Monitor Ambulance Franchise Fee Collections (Continued)

as of June 30, 2003. Neither private company's obligation has been exonerated by fiscal court action from payment due. In addition there are no written procedures related to the collection of delinquent payments. In the current lease agreement, signed November 26, 2003, the payment to the fiscal court is to be \$25,000 over a four-year period. Delinquent payments at June 30, 2005 total \$9,896 for the new provider.

We recommend the fiscal court review the terms of the agreement and the status of the amount owed the county according the lease terms and adopt written procedures for the collection of delinquent payments.

County Judge/Executive Kenneth R. Witt's Response: The fiscal court will review and make all necessary changes.

C. FEDERAL AWARD FINDINGS

2005-14 - The County Did Not Maintain Documentation Of FEMA Grant Expenditures

Federal Program: CFDA# 97.036 – Public Assistance Grants
 Federal Agency: Department of Homeland Security
 Pass-Through Agency: Commonwealth of Kentucky
 Compliance: All applicable areas
 Amount of Questioned Costs: \$318,369

This comment was originally presented in the fiscal year ended June 30, 2004 audit report. We have presented this updated comment again because the financial impact, transactions, and effects of this comment carried forward into the fiscal year ended June 30, 2005.

The County received advance grant funds from FEMA and the Commonwealth of Kentucky for repair costs under FEMA major disasters designated 1407-DR, 1454-DR, and 1523-DR, with funding provided under Public Assistance Grants, CFDA 97.036. The twenty individual projects within the scope of the agreement were all considered "small projects" (under \$52,000 each) with the exception of two projects, totaling \$256,424. The grant agreements specify all backup documentation and cost information is to be maintained in the County's files. The agreements further state that advance funds not supported by audit or other federal or state review are subject to return to the Commonwealth of Kentucky within 45 days upon request of the Governor's authorized representative.

We reviewed all twenty individual project files which revealed questioned costs totaling \$318,369 in federal funds and \$50,939, which had no documentation of the disposition of the funds received. All twenty files were incomplete.

We recommend the County contact the Kentucky Department of Military Affairs, Division of Emergency Management and notify them of the audit finding and questioned costs to determine if the funds will be required to be refunded. We recommend the County carefully review all future grant agreements and maintain records required. Due to the amount of grant funding received in the county, we also recommend the County hire a grants management administrator to coordinate report and maintain records on all grant activity for the County.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-14 - The County Did Not Maintain Documentation Of FEMA Grant Expenditures
(Continued)

County Judge/Executive Kenneth R. Witt's Response: Corrective procedures are being put in place to ensure that the DES department's record keeping methods meet all requirements.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2004-01	The County Does Not Maintain Proper Documentation For Capital Assets. Not corrected. Repeated as Finding 2005-08.
2004-02	Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards. Not corrected. Repeated as Finding 2005-01.
2004-03	The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Control. Not corrected. Repeated as Finding 2005-09.
2004-04	The Fiscal Court Should Maintain Adequate Documentation For All Expenditures. Not corrected. Repeated as Finding 2005-02.
2004-05	County Employees Used The County Judge Executive's Credit Card. Not corrected. Repeated as Finding 2005-03.
2004-06	The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics. Not corrected. Repeated as Finding 2005-04.
2004-07	The Fiscal Court Should Maintain Adequate Documentation For All Personnel Files. Not corrected. Repeated as Finding 2005-10.
2004-08	The Fiscal Court Should Approve Employee Pay Rates. Not corrected. Repeated as Finding 2005-06.
2004-09	The County Should Review Contract Labor Relationships. Corrected.
2004-10	The County Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities. Not corrected. Repeated as Finding 2005-07.
2004-11	The Fiscal Court Should Pay Obligations Timely. Not corrected. Repeated as Finding 2005-11.
2004-12	The Fiscal Court Should Annually Review The Administrative Code. Not corrected. Repeated as Finding 2005-12.
2004-13	The Fiscal Court Should Monitor Ambulance Franchise Fee Collections. Not corrected. Repeated as Finding 2005-13.
2004-14	The County Did Not Maintain Documentation Of FEMA Grant Expenditures. Not corrected. Repeated as Finding 2005-14.

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LESLIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LESLIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

Federal Grantor		
Program Title	Pass-Through	
Grant Name (CFDA #)	Grantor's Number	Expenditures
U.S. Department of Health and Human Services		
Passed through KY River Area Development District:		
Title III B,C,F Grant and Homecare Program		
(CFDA #93.044, 93.045, 93.046)	M-04085171	62,991
Total U.S. Department of Health and Human Services		62,991
U.S. Department of Agriculture		
Passed through KY River Area Development District:		
USDA Cash-in-Lieu of Commodities Program		
(CFDA #10.570)	Not Available	37,503
Total U.S. Department of Agriculture		37,503
U.S. Department of Homeland Security		
Passed through State of Kentucky:		
Public Assistance Grants	FEMA A-1407-DR-KY	
(CFDA #97.036)		136,343
Public Assistance Grants	FEMA A-1454-DR-KY	
(CFDA #97.036)		12,980
Public Assistance Grants	FEMA A-1523-DR-KY	
(CFDA #97.036)		169,046
Emergency Management Performance Grants		
(CFDA # 97.042)	M-03138124	26,181
Emergency Management Performance Grants		
(CFDA # 97.042)	Not Available	21,749
Total U.S. Department of Homeland Security		366,299
U.S. Department of Housing and Urban Development		
Passed through State of Kentucky:		
Community Development Block Grant -		
Waterline Project		
(CFDA #14.228)	B-01-57	2,000
Total U.S. Department of Housing and Urban Development		2,000
U.S. Department of Commerce		
Passed through Other Agencies:		
National Oceanic and Atmospheric Administration		
Passed Through the Center for Rural Development		
PRIDE Grants		
(CFDA #11.469)	CF03-23/CF04-26	51,829
Total U.S. Department of Commerce		51,829
U.S. Department of the Interior		
Passed through Other Agencies:		
National Forestry		
In-Lieu of Taxes grant		
Daniel Boone National Park	Not Available	54,306
Total U.S. Department of the Interior		54,306
TOTAL FEDERAL AWARDS		\$ 574,928

LESLIE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Leslie County, Kentucky and is presented on a cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



The Honorable Kenneth R. Witt, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2006, wherein, we disclaimed an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leslie County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Leslie County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items: 2005-02, 2005-03, 2005-04, 2005-06, 2005-07, and 2005-09.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of them to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Leslie County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items: 2005-01, 2005-05, 2005-08, 2005-10, 2005-11, 2005-12 and 2005-13.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

Simon Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
July 28, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



The Honorable Kenneth R. Witt, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We were engaged to audit the compliance of Leslie County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Leslie County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Leslie County's management.

As further outlined in finding 2005-14, we were unable to obtain sufficient documentation supporting the compliance of Leslie County, Kentucky, with its Public Assistance Grants CFDA# 97.036, major program regarding all applicable compliance requirements, nor were we able to satisfy ourselves as to Leslie County's compliance with those requirements by other auditing procedures.

Because of the audit scope limitation described in the preceding paragraph and in finding 2005-14, our work was not sufficient to enable us to express and we do not express an opinion on Leslie County's compliance with requirements applicable to the Public Assistance Grants (CFDA# 97.036) major program.

Internal Control Over Compliance

The management of Leslie County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Leslie County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Leslie County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-14.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2005-14 to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
July 28, 2006

